Standby Letters Up 24.6% at Top 100 Banks

Continued from Page 1

But some of the groundwork has already been laid.

A recent study by Keefe, Bruyette & Woods Inc. pointed out that if standby letters of credit were included as assets in calculating the primary capital ratios at the eight largest bank holding companies in the nation, they would all fall below the current 5.5% minimum requirement for primary capital. The Keefe study concluded that requiring fuller disclosure may be one way of dealing with the problem.

Not surprisingly, the *American Banker* list shows that increases in standby letters of credit wildly outpaced increases in assets for almost every bank, and even those banks that posted declines in assets racked up increases in their standbys.

At First National Bank of Chicago, for instance, assets declined 1.4% in 1984 while standbys grew 21.6%. Marine Midland Bank in Buffalo had a 4.1% drop in assets, but its standbys grew 93.3%. At Bankers Trust Co. in New York, standbys equaled 20.4% of total assets.

According to the *American Banker* data, the largest percentage growth in standby letters was seen in banks that ranked in the top 11 to 20 in terms of letters of credit outstanding. Outstanding standbys in that group grew 34.4% in 1984 and had a total dollar value of $17.2 billion.

Meanwhile, banks ranked in the top 10 had a 19.4% growth in outstanding standbys from 1983, for a total dollar value of $92.2 billion.

Based on conversations with bankers, as well as raw data, it would appear that the growth in standby letters is starting to emanate from the regional banks, while money center banks, which paved the way in standbys just three or four years ago, are slowing their rate of expansion in this area.

Top Letter of Credit Banks

(Ranked by Standby Letters of Credit; Dollar Amounts in Thousands)

Rank 12/84		Standby Letters of Credit 12/31/84	12/31/83	% Chg.	Total Assets 12/31/84	SLC-% of Assets 12/31/84	% Chg. In Assets 1984	Asset Rank 12/31/84
1	Citibank NA, New York	19,904,000	17,250,000	15.39	120,054,000	16.58	5.80	1
2	Manufacturers Hanover Trust Co., New York	11,905,538	10,691,041	11.36	62,426,652	19.07	8.13	5
3	Bank of America NT & SA, San Francisco	10,934,000	9,886,269	10.60	104,084,000	10.50	-5.09	2
4	Chemical Bank, New York	10,079,031	8,089,210	24.60	51,232,080	19.67	3.82	6
5	Bankers Trust Co., New York	9,011,092	7,993,103	12.74	44,142,280	20.41	10.00	7
6	Morgan Guaranty Trust Co., New York	8,535,928	5,525,499	54.48	63,540,749	13.43	13.05	4
7	Chase Manhattan Bank NA, New York	8,195,027	5,776,822	41.86	80,399,540	10.19	1.10	3
8	First National Bank, Chicago	4,724,671	3,885,458	21.60	35,041,579	13.48	-1.40	9
9	Security Pacific National Bank, Los Angeles	4,647,448	2,411,318	92.73	40,149,543	11.58	11.22	8
10	Continental Illinois NB & Tr. Co., Chicago	4,426,242	5,584,452	-20.74	30,063,705	14.72	-26.08	10
11	Marine Midland Bank NA. Buffalo, N.Y.	2,400,036	1,241,375	93.34	21,677,969	11.07	-4.13	14
12	Mellon Bank NA, Pittsburgh, PA.	2,156,556	1,592,358	35.43	24,530,492	8.79	12.47	11
13	First National Bank, Boston	2,024,271	1,563,204	29.49	18,367,026	11.02	5.31	16
14	First Interstate Bank of California, Los Angeles	1,939,301	1,808,689	7.22	20,041,590	9.68	-3.78	15
15	Crocker National Bank, San Francisco	1,884,039	1,857,169	1.45	22,000,855	8.56	-4.35	13
16	Texas Commerce Bank, Houston	1,697,155	597,363	184.11	12,142,159	13.98	2.35	20
17	Irving Trust Co., New York	1,612,903	1,098,960	46.77	17,200,807	9.38	-2.61	17
18	Wells Fargo Bank NA. San Francisco	1,315,138	1,294,348	1.61	24,025,070	5.47	0.71	12
19	Bank of New York	1,159,417	791,007	46.57	14,714,330	7.88	16.33	18
20	RepublicBank Dallas NA	1,048,535	878,572	19.35	14,378,377	7.29	14.50	19
21	Pittsburgh National Bank	1,046,589	612,871	70.77	9,116,191	11.48	9.13	27
22	First National Bank, Minneapolis	950,019	485,884	95.52	8,318,041	11.42	15.73	32
23	European American Bank, New York	894,785	705,582	26.82	7,460,817	11.99	9.91	36
24	National Westminster Bank USA, New York	833,267	444,383	87.51	8,749,413	9.52	16.88	29
25	MBank Dallas NA	812,554	615,831	31.94	6,330,716	12.84	10.77	49
26	First City National Bank, Houston	735,537	703,237	4.59	9,495,920	7.75	-7.08	26
27	InterFirst Bank Dallas NA	713,672	763,931	- 6.58	10,652,188	6.70	-3.46	23
28	First National Bank, St. Paul, Minn.	652,212	716,324	- 8.95	5,555,929	11.74	36.19	56
29	National Bank of Detroit	620,595	350,743	76.94	11,867,461	5.23	2.37	21
30	Union Bank, Los Angeles	583,459	452,919	28.82	8,307,556	7.02	0.60	34
31	Norwest Bank Minneapolis NA	542,927	618,266	-12.19	5,965,067	9.10	4.08	52
32	MBank Houston NA	523,979	106,006	392.90	4,600,881	11.39	317.25	72
33	Harris Trust & Savings Bank, Chicago	500,632	507,544	- 1.36	7,767,647	6.45	11.38	35
34	Northern Trust Co., Chicago	385,379	356,296	8.16	6,628,028	5.81	11.30	43
35	Rainier National Bank, Seattle	377,083	314,870	19.76	7,270,970	5.19	21.33	38
36	Centerre Bank NA, St. Louis	375,719	283,729	32.42	3,283,087	11.44	-8.02	96
37	Fidelity Bank NA, Malvern, Pa.	372,547	N.A.	N.A.	5,904,728	6.31	520.55	53
38	Seattle-First National Bank	358,430	228,508	56.86	8,776,352	4.08	6.26	28
39	Connecticut National Bank, Hartford	342,403	168,905	102.72	6,053,504	5.66	32.32	51
40	Comerica Bank- Detroit	341,196	220,439	54.78	7,175,235	4.76	24.26	40
41	Sovran Bank NA, Richmond	340,345	237,561	43.27	8,148,098	4.18	15.47	33
42	J. Henry Schroder Bank & Trust Co., New York	325,720	249,795	30.39	2,015,620	16.16	-3.04	154
43	Philadelphia National Bank	299,690	275,386	8.83	7,169,777	4.18	22.75	41
44	United Virginia Bank, Richmond	285,774	232,861	22.72	5,847,503	4.89	8.58	54
45	NCNB National Bank of North Carolina, Charlotte	284,007	295,594	- 3.92	10,296,422	2.76	12.67	24
46	Manufacturers National Bank, Detroit	274,444	215,479	27.36	5,536,551	4.96	8.98	57
47	American National Bank & Trust Co., Chicago	271,786	212,870	27.68	3,428,548	7.93	11.81	92
48	National City Bank, Cleveland	268,923	255,866	5.10	5,076,095	5.30	20.93	64
49	Bank One, Columbus, NA, Ohio	261,791	90,131	190.46	2,473,685	10.58	41.40	126
50	Bank of New England NA, Boston	260,109	255,647	1.75	5,051,714	5.15	13.44	65
	Top 50 Banks in Standby Letters of Credit	**124,435,901**	**100,793,975**	**23.50**	**1,024,449,134**	**12.10**	**5.20**	

Data are taken from the Report of Condition, Schedule RC-I.—Commitments and Contingencies, item 6.a.(1) plus item 6.a.(2), which are the sum of standby letters of credit and foreign office guarantees to U.S. customers plus non-U.S. customers. The amounts outstanding and unused as of the report date are reported. (Also included are all legally binding commitments to issue standby letters of credit.)

According to the instructions to the Report of Condition, originating banks must report the full amount outstanding and unused of standby letters of credit in which participations have been conveyed to others where: (1) the originating and issuing bank is obligated to pay the full amount of any draft drawn under the terms of the standby letter of credit and (2) the participating banks have an obligation to partially or wholly reimburse the originating bank, either directly in cash or through a participation in a loan to the account party.

For syndicated standby letters of credit where each bank has a direct obligation to the benefeciary, each bank must report only its share of the syndication. Similarly, if several banks participate in the issuance of a standby letter of credit under a "bona fide" binding agreement, each bank shall report only its proportional share of the total standby letter of credit.

For a standby letter of credit that is in turn backed by a standby letter of credit issued by another bank, each bank must report the entire amount of the standby letter of credit it has issued and not just the unbacked portion.

"A letter of credit is a document issued by a bank on behalf of its customer (the account party) authorizing a third party (the beneficiary), or in some cases the account party, to draw drafts on the bank up to a stipulated amount with specified terms and conditions. The letter of credit is a conditional commitment...on the part of the bank to provide payment on drafts drawn in accordance with the terms of the document."

There are four types of letters of credit: (1) commercial letters of credit; (2) letters of credit sold for cash; (3) travelers' letters of credit; and (4) standby letters of credit.

A standby letter of credit "(1) represents an obligation on the part of the issuing bank to a designated third party (the beneficiary) contingent upon the failure of the issuing bank's customer (the account party) to perform under the terms of the underlying contract with the beneficiary, or (2) obligates the bank to guarantee or stand as surety for the benefit of a third party to the extent permitted by law or regulation." (Quotes are from the Glossary to the Report of Condition Instructions, page A-24.) N.A.—Not available.

Data provided by Data Resources Inc., Lexington, Mass. from their data base of the federal regulatory report of condition for Dec. 31, 1984.

Prices Have Eroded

Standby letters of credit, like other off-balance-sheet items, have grown in popularity as banks have searched for new ways to make money. But while this much-heralded instrument continues to provide a good source of income, it is no longer able to attract the high fees it did 10 years ago, or even three years ago. Competition from domestic and international banks has drastically eroded the prices on standbys.

For instance, some bankers said standby letters of credit can be priced as low as one-sixteenth of 1%, compared with five-eighths of 1% three years ago and 1.5% 10 years ago.

In some cases, fees have dropped so low they no longer cover the risk involved in writing a standby, several bankers said.

Meanwhile, other bankers and some regulators are suggesting that perhaps all of the recent concern related to the credit quality of standby letters of credit may be overblown. So far, no catastrophes have occurred to indicate problems with standbys.

One possible explanation for the success rate with standbys is that banks are sufficiently analyzing the credit risks.

"Bankers all say they use the same standard to evaluate standby letters of credit as they do loans," said Harry Meily, vice chairman of Security Pacific Corp. "We do in this bank."

Industry experts generally agree that letters of credit should be given the same scrutiny as loans. And apparently that call is being heeded. In conversations with several bankers, all repeated a similar refrain:

"We approve standby letters of credit in the same manner as loans," said Marc Shapiro, vice chairman of Texas Commerce Bank in Houston.

Industry observers are inclined to agree that bankers seem to be applying the same diligence to standbys as they do to loans, and it appears that only small losses from standby letters of credit have been written off.

Returns May Not Cover the Risk

One thing that does appear to differ, however, is that bankers may not be getting paid adequately to cover the risk of writing a standby.

"There is little compensation for the risk, due to the amount of competition in the field," said one industry expert. "Fees should cover three things: the work being done, a reserve to account for the amount of risk being undertaken, and then a little profit." If the fee on a standby letter of credit is covering those three aspects, it is probably adequate; otherwise one of the areas is being shortchanged, he said.

Fees generated for standby letters of credit vary with the type of credit guaranteed, as well as with the quality of the underlying credit. But one commercial lending expert estimates that, on average, a bank can get 50 basis points for booking a standby letter of credit, although fees range from 35 to 60 basis points. On a sizable letter of credit then, "there's lots of money at risk for a small fee," the industry expert said.

With the intense competition, some fees have even fallen as low as 0.0625%. "That just doesn't account for the risk involved," the lending officer said. "It has the same risk [as a loan] but not the profit."

But even with the lower fees, Mr. Meily of Security Pacific still sees it "as a worthwhile business." Security Pacific, which had a 92% increase in its outstanding standby letters in 1984, has pursued a special segment of the standby business that guarantees multifamily housing bonds. That particular type of standby letter of credit is protected by the security of the project, Mr. Meily explained. "It's backed by a 250-apartment house in Pomona, [Calif.] We could sell the apartment house to cover the loss if we had to."

But, he noted, even in this special niche that Security Pacific has carved for itself, competition has squeezed fees somewhat.

"We were getting higher fees when we did the multifamily housing bonds last year." But he explained that there are several different levels of fees. For instance, on some standby letters of

Top Letter of Credit Banks

(Ranked by Standby Letters of Credit; Dollars Amounts in Thousands)

Rank 12/84		Standby Letters of Credit 12/31/84	12/31/83	% Chg.	Total Assets 12/31/84	SLC-% of Assets 12/31/84	% Chg. In Assets 1984	Asset Rank 12/31/84
51	First Fidelity Bank NA, Newark, N.J.	259,695	57,113	354.70	7,161,788	3.63	167.57	42
52	California First Bank, San Francisco	247,850	253,740	- 2.32	5,002,166	4.95	15.08	66
53	Valley National Bank, Phoenix, Ariz.	241,690	179,515	34.63	8,532,058	2.83	5.38	31
54	Mellon Bank (East) NA, Philadelphia	240,035	256,889	- 6.56	4,156,709	5.77	2.01	75
55	Bank Leumi Trust Co., New York	234,921	45,911	411.69	2,666,329	8.81	-11.95	114
56	Bank of Tokyo Trust Co., New York	233,931	141,174	58.62	5,084,727	4.40	12.89	63
57	United States Trust Co., New York	222,005	275,237	-19.34	2,289,867	9.70	-0.77	137
58	Shawmut Bank of Boston NA	212,011	91,786	130.98	3,478,466	6.09	10.91	90
59	First Wisconsin National Bank, Milwaukee	209,868	202,991	3.39	3,824,178	5.49	8.83	84
60	Allied Bank of Texas, Houston	207,662	N.A.	N.A.	4,190,761	4.96	21.08	77
61	Mercantile Trust Co. NA, St. Louis	201,082	153,254	31.21	3,742,313	5.37	8.98	86
62	Provident National Bank, Philadelphia	185,947	121,190	53.43	4,795,086	3.88	15.72	67
63	Fleet National Bank, Providence, R.I.	178,532	137,155	30.17	4,654,794	3.84	-4.73	69
64	Southeast Bank NA, Miami	175,041	145,657	20.17	9,544,003	1.83	12.58	25
65	First Interstate Bank of Denver NA	168,241	170,811	- 1.50	2,380,392	7.07	-13.62	132
66	First National Bank of Maryland, Baltimore	167,138	97,133	72.07	3,735,140	4.47	13.90	83
67	United Bank of Denver NA	165,689	97,755	69.49	2,631,803	6.30	7.67	116
68	Bank of California NA, San Francisco	162,043	90,677	78.70	3,389,241	4.78	-14.16	93
69	First National Bank, Louisville, Ky.	157,151	118,298	32.84	3,291,286	4.77	0.02	95
70	Ameritrust Co. NA, Cleveland	156,725	95,922	63.39	6,617,758	2.37	14.11	45
71	Commerce Union Bank, Nashville, Tenn.	156,650	123,410	26.93	1,777,582	8.81	13.22	179
72	Connecticut National B&T Co. NA, Hartford	156,378	142,408	9.81	6,583,484	2.38	13.71	47
73	Maryland National Bank, Baltimore	153,746	92,427	66.34	6,296,791	2.44	28.01	50
74	Texas American Bank/Ft. Worth NA	152,015	70,291	116.27	2,772,858	5.48	8.58	106
75	Continental Bank, Norristown, Pa.	136,476	N.A.	N.A.	2,656,267	5.14	6.08	115
76	Citizens & Southern National Bank, Atlanta	135,361	104,064	30.07	7,411,188	1.83	15.62	37
77	Huntington National Bank, Columbus, Ohio	133,132	75,669	75.94	5,511,072	2.42	33.48	59
78	Canadian Imperial Bank of Commerce, New York	129,316	N.A.	N.A.	488,894	26.45	N.A.	491
79	Morgan Bank (Delaware), Wilmington	128,414	99,683	28.82	2,793,981	4.60	26.22	107
80	Zions First National Bank, Salt Lake City, Utah	127,611	77,629	64.39	2,462,500	5.18	18.48	127
81	InterFirst Bank Austin NA, Tex.	119,187	N.A.	N.A.	1,820,691	6.55	26.00	173
82	Marine Bank NA, Milwaukee	116,263	81,572	42.53	1,471,946	7.90	16.31	202
83	Riggs National Bank, Washington, D.C.	115,695	98,739	17.17	5,117,262	2.26	7.56	62
84	AmSouth Bank NA, Birmingham, Ala.	115,237	98,318	17.21	4,301,905	2.68	16.04	74
85	American Security Bank NA, Washington, D.C.	114,803	138,100	-16.87	4,033,512	2.85	8.30	79
86	Equitable Bank NA, Baltimore	112,390	84,075	33.68	3,042,844	3.69	19.65	102
87	State Street Bank & Trust Co., Boston	110,551	73,756	49.89	4,677,359	2.36	19.38	68
88	Trust Company Bank, Atlanta	109,324	49,503	120.84	3,902,850	2.80	26.29	82
89	Barclays Bank of New York NA	106,017	N.A.	N.A.	1,791,294	5.92	18.23	177
90	First Pennsylvania Bank NA, Philadelphia	104,072	56,609	83.84	5,361,388	1.94	4.56	60
91	Chase Lincoln First Bank NA, Rochester, N.Y.	101,775	122,180	-16.70	4,154,750	2.45	0.63	76
92	Third National Bank, Nashville, Tenn.	98,089	96,165	2.00	2,192,695	4.47	17.19	144
93	Merchant National B&T Co., Indianapolis	96,699	96,254	0.46	2,249,001	4.30	12.22	140
94	Frost National Bank, San Antonio, Tex.	96,420	N.A.	N.A.	1,807,361	5.33	11.07	179
95	First Union National Bank, Charlotte, N.C.	95,008	83,317	14.03	7,177,223	1.32	7.87	39
96	First Security Bank of Utah NA, Ogden, Utah	94,910	N.A.	N.A.	2,682,088	3.54	11.62	113
97	Wachovia B&T Co. NA, Winston-Salem, N.C.	94,389	160,766	-41.29	8,592,319	1.10	5.52	30
98	Commerce Bank of Kansas City NA, Mo.	94,106	77,127	22.01	1,656,647	5.68	8.57	187
99	BancOhio National Bank, Columbus	93,755	149,722	-37.38	4,626,122	2.03	-20.66	71
100	Hamilton Bank,Lancaster Pa.	93,574	99,834	-6.27	2,451,771	3.82	2.76	128
	Top 100 Banks in Standby Letters of Credit	**131,954,521**	**105,877,801**	**24.60**	**1,237,679,258**	**10.70**	**6.00**	

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Data provided by Data Resources Inc., Lexington, Mass. from their data base of the federal regulatory report of condition for Dec. 31, 1984.

credit there are annual fees. Sometimes, an up-front fee can still be obtained, and in some cases, there is an after-market fee or commission paid on an annual or semiannual basis for such things as marketing bonds.

More Disclosure May Quell Concerns

Mr. Meily, who told a group of bankers last March that he was sounding "a little bit of an alarm" over the level of growth in standby letters of credit, said more recently that it is possible the hoopla over the standbys is overblown.

He suggested that, rather than have federal banking officials impose a new set of regulations, it may be sufficient for the Securities and Exchange Commission to require more disclosure from banks on their standby holdings, including a breakdown on the types of standby letters. The same would hold true for other types of off-balance-sheet items, he said.

According to a spokesman from the Federal Deposit Insurance Corp., off-balance-sheet items are on the agency's agenda, and standby letters of credit are at the top of the list. But no proposals exist on how to deal with these issues.

However, another industry observer said that though the regulators are making noises about off-balance-sheet items and standbys, "the regulators are not as concerned as it would appear." The regulators have to appease Congress, so they are just taking steps to make sure that nothing happens, he said.

A number of banks, including some that have very large standby letter exposure, say they are no longer seeking to place standby letters of credit in an aggressive fashion but, rather, are doing it to help sell other services or as part of a separate transaction.

Bankers are starting to view the standby letter as an instrument that is added on to another bank product as a credit enhancement feature. For instance, a standby may be done in conjunction with a bank's public finance group to help float a bond or to back a note-issuance facility.

Some money center banks have issued standby letters of credit to back up commercial paper for their customers, only to find they are then competing with their customers in the commercial paper market.

This particular problem has caused larger banks to turn away from issuing standbys to back up commercial paper, especially since the fees for this type of transaction have become very low.

Darin Narayana, executive vice president of Norwest Bank Minneapolis, said his bank does not "go out and market a standby letter of credit by itself." At Norwest, standbys dropped 12.2% to $542.9 million. The decline, Mr. Narayana said, resulted from one or two standbys that matured and were not renewed. He added that he does not expect any growth in that area for Norwest this year.

"The risk in a standby letter of credit is no different than the risk in a loan. It is still a commitment to make a loan. The documentation is also the same," Mr. Narayana said. "This may be a conservative posture that we have taken."

One bank that has taken a somewhat opposite viewpoint is Texas Commerce Bank in Houston, which in 1984 had growth of 184.1% in standby letters of credit, to $1.7 billion — one of the largest percentage increases of any bank.

Marc Shapiro, the Texas Commerce vice chairman, said his bank determined that its standby letters as a percentage of equity had been much lower than at other banks, especially money center banks. Consequently, he said, Texas Commerce decided to actively seek standby letter of credit business. At the end of 1983, standby letters of credit as a percentage of equity were 71% — growing to 134% at the end of 1984, he said.

Texas Commerce set a guideline of 150% for its standby-to-equity ratio, Mr. Shapiro said. "As long as we were below 150% and stuck to certain pricing guidelines, we saw this as a business we ought to pursue. We think on the basis we do [this business], it is profitable."

Mr. Shapiro said Texas Commerce uses standby letters of credit primarily as an enhancement to publicly issued debt. Standbys go through the same credit review process as regular loans, and he views this as a growing business for the bank. ■

Fall Conferences Focus On Money Laundering

Washington Bureau

WASHINGTON — Ways to prevent money laundering through financial institutions is the topic of a series of conferences this fall.

One-day seminars will offer videotaped comments from authorities in the field and live discussions at more than 60 sites across the country. Policies and procedures involving compliance with money laundering laws and techniques to halt money laundering will be reviewed.

Included in the seminar are discussions of the Bank Secrecy Act, the Right to Financial Privacy Act, the 1984 Comprehensive Crime Control Act, and other laws affecting money laundering.

Among experts taped to present views are Federal Bureau of Investigation Director William Webster, Customs Commissioner William Von Raab, Internal Revenue Service Commissioner Roscoe L. Egger, and Acting Comptroller of the Currency H. Joe Selby. Seminars are sponsored by the American Bankers Association, the National Council of Savings Institutions, the Credit Union National Association, the International Association of Chiefs of Police, and 24 state bankers associations. ■

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Quote

Now, like a scorned suitor whose faithfulness has gone unrewarded, the [foreign exchange] market seizes on every opportunity to "punish" the dollar.

Lawrence L. Kreicher, economist for New York's Irving Trust Co. [2]

Unquote

Credit Unions Boast Low Fees In Bid to Keep Tax Exemption

Special to the American Banker

WASHINGTON — Credit unions generally charge depositors less for basic financial services than banks and thrifts charge, according to a survey by the Credit Union National Association.

At the press conference Wednesday unveiling the survey, which was conducted in March and April, the trade group banged the drum for retaining credit unions' tax-free status, which would be lost under the Reagan tax reform plan.

If credit unions lose their tax exemption, many would be forced to raise the cost of their basic services, said Joseph Perkowski, chairman of the trade group.

Credit unions, he contended, have earned their tax-free status by "assuring that people of modest means are not priced out the banking system."

The survey found that three-fourths of all credit unions with interest-bearing checking accounts do not have per-check or monthly service charges.

All but 5% of the banks and S&Ls surveyed levied these charges on their NOW accounts.

The differences come as no surprise, however, since credit unions are nonprofit as well as tax-exempt.

"We had a hunch that credit unions would show up well in a survey like this," said Mr. Perkowski, acknowledging that the findings were predictable.

Mark Clark, a spokesman for the U.S. League of Savings Institutions, said:

➳ **Credit Unions: Page 7**

Bankers Trust Plans Brokerage Unit

Decision Announced Just Hours After Fed Clears Affiliate for Futures Trading

By ANDREW ALBERT

NEW YORK — Bankers Trust New York Corp., which is looking more like a big securities firm every day, made important strides Wednesday into the worlds of institutional stock brokerage and futures trading.

In the afternoon, the nation's ninth largest banking company announced plans to open a brokerage subsidiary to trade securities for wealthy individuals and institutional customers.

Just a few hours earlier in the day, the Federal Reserve Board said it had cleared the way for one of the company's affiliates, BT Futures Corp., to trade stock index futures for institutional clients.

The two developments are merely the latest in Bankers Trust's full-scale efforts to tap income sources that have traditionally belonged to the nation's largest investment banking houses.

The new brokerage unit, BT Brokerage Corp., won Federal Reserve approval in April and was registered with the Securities and Exchange Commission last month. It now awaits approval to become a member of the New York Stock Exchange.

Through its one New York office, BT Brokerage plans to act solely as an agent in buying and selling for customer accounts. Bankers Trust said the unit will neither underwrite securities nor provide investment advice and research services.

In addition, BT Brokerage will exe-

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Senate Report Raps Policing Of Tax Havens

Criticizes Banks, Regulators For Failing to Spot Laundering

By MARK BROHAN

WASHINGTON — The U.S. government is not cracking down hard enough on criminals using foreign tax havens to launder illegal drug profits, a Senate report on offshore banking charged Wednesday.

The report also said the banking industry was negligent because it is not supplying federal authorities with sufficient information on large cash transactions.

"The criminal exploitation of offshore tax havens as means of laundering money is flourishing and more must be done both nationally and internationally to get rid of this problem," Sen. William Roth, R-Del., chairman of the permanent subcommittee on investigation, said in issuing the report.

"By providing anonymity for foreign money and failing to cooperate with U.S. law enforcement, an estimated $20 billion is hidden each year by criminals," he said.

The subcommittee on investigation is a panel that probes issues related to organized crime for the Senate Governmental Affairs Committee.

A spokesman for the subcommittee said further hearings on domestic and international money laundering would be held in October. At that time a new subcommittee report will focus on the offshore banking activities of First National Bank of Boston and various Caribbean banks.

Earlier this year, First National Bank of Boston pleaded guilty to a felony charge of failing to report $1.2 billion of foreign interbank currency transactions and was fined $500,000. The Senate permanent subcommittee held hearings that focused on First National Bank of Boston and other Boston institutions that had failed to report cash transactions. More recently, it held a day of hearings on currency violations in Puerto Rico.

Banks are generally required to report cash transactions that involve $10,000 or more.

According to the 180-page report released Wednesday, banks should be made to report all financial transactions involving foreign tax havens, and Congress should toughen the Bank Secrecy Act.

The report was issued one day after Treasury Department officials announced that Crocker National Bank, San Francisco, had been fined $2.25 million for failing to report almost $4 billion in currency transactions. A subcommittee spokesman said that the issuing of the report so close to the announcement of the Crocker National Bank fine was coincidental.

The report specifically recommends that loans from tax havens be reported to the Internal Revenue Service for income tax purposes; that deductions for income tax purposes be denied for any expense or loss coming from a foreign

➳ **Offshore: Page 10**

IN THE NEWS

Crossland to Convert

NEW YORK — The Federal Home Loan Bank Board approved a plan by CrossLand Savings FSB to convert to a stock savings bank from a mutual savings bank, the thrift announced. The $7.9 billion-asset institution said the conversion must receive final approval from depositors and borrowers at a special meeting Oct. 1.

Marine Offers Car Finance

BUFFALO — Marine Midland Bank said it will offer auto-related financial services to New England car dealers through an agreement with New England Financial Credit Corp. Marine will provide inventory financing, retail auto loan and lease products, and other specialized dealer-oriented financial services to dealers in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

Mutual Fund Sales Record

WASHINGTON — Mutual funds sales exceeded $10 billion in July, an industry record, according to the Investment Company Institute. That was up from $9.1 billion in June, and $2.7 billion a year ago. Sales of funds other than money market and short-term funds for the first seven months of 1985 are $57.1 billion, already over 1984's record total of $45.9 billion, the institute reported.

Citadel Attracts Buyers

BURBANK, Calif. — Citadel Holding Corp. has been contacted by two potential buyers, said Spencer Scott, chairman and chief executive of the savings and loan holding company. He said Citadel hasn't received bids from either and isn't involved in any negotiations with them. Mr. Scott said the parties are a major California thrift and a nonfinancial institution outside the state. He said a dispute with Citadel's investment banker, Salomon Brothers Inc., that had scuttled the proposed acquisition of the company by Great Western Financial Corp. was at a "stalemate."

Grocery Chain Automated

MILWAUKEE — A grocery store chain will be the first in Wisconsin allowing customers to pay with debit cards in all its shops once Marine Bank and Roundy's Corp. complete a system of point-of-sale machines during the next three months. Roundy's will install point-of-sale terminals in all 15 Pick 'n Save grocery stores in the Milwaukee area.

Equitec Profits Rise

LOS ANGELES — Equitec Financial Group. said its profits in the quarter ended July 31 increased to $1.75 million on revenues of $19.7 million, against profits of $1.69 million on revenues of 19.5 million, a year earlier. Equitec, which is based in Oakland, Calif., said it derived 76% of its operating income from asset management in the period, compared with nearly 55% a year earlier. Assets under management increased 36% from a year earlier to $2.6 billion.

— Compiled by Gordon F. Light

What Analysts Say

Pennbancorp Offers Something Extra for Ohio Buyers

By JOHN P. FORDE

Pennbancorp of Titusville, Pa., is shaping up as an attractive takeover candidate, with a little something extra to offer for acquirers such as the larger Ohio bank holding companies, says Lacy McNaron Shockley, an analyst with Mabon, Nugent & Co.

The analyst says the stock is currently selling at a "reasonably modest valuation relative to book value," and that it represents "solid quality combined with the possibility of a buyout offer during the next several quarters."

Her recommendation of this stock comes mainly from the fact that it has good fundamental earnings and that it is in an area that is soon to become a hotbed of regional bank takeovers.

"Interstate banking will soon be a reality in the mid-Atlantic region, and this bank will surely be an attractive target for the larger Ohio institutions," she says. The western area of Pennsylvania — Pennbancorp is headquartered only about 50 miles from the Ohio border — is a natural expansion area for the major Ohio banks.

Ohio recently passed a reciprocal interstate banking law that will allow Ohio banks to expand into a number of states. Ms. Shockley, however, does not expect Pennsylvania to pass an interstate banking law before late this fall or early 1986.

Pennbancorp's extra added attraction is a large equity portfolio that is being carried on the company's balance sheet at cost. Based on June 30, 1985, numbers, the unreal-

→ Analysts: Page 11

South Africa's Foreign Exchange Crisis Seen as Temporary Liquidity Problem

By M.S. MENDELSOHN

LONDON — South Africa's foreign exchange crisis, prompted by the recent pullback by American banks, is seen by the market here as a short-term liquidity problem.

News Analysis

The racially troubled country is said to be weighing several moves to ease the situation in the wake of its suspension Tuesday of currency and stock market transactions.

The suspension is in effect until Monday.

South Africa's currency, the rand, was being quoted in London Wednesday at a level significantly above the low it reached on Tuesday before the government declared the moratorium.

Bankers said the quoting of the rand at a range of 37 to 47 U.S. cents revealed market feelings that short-term economic developments in South Africa were likely to be favorable. The moratorium was declared on Tuesday after the rand fell 4 cents in the exchange rate to a record low of 35.4 cents, down 30% since June and more than 50% since mid-1984.

The crisis is attributed here to the action of Chase Manhattan Bank, followed by several other banks, including Bank of America, Security Pacific National Bank, and NCNB National Bank, in cutting off interbank lines to South African banks.

A senior international banker who returned here Tuesday from a brief visit to Pretoria said a suspension of foreign exchange dealings had been discussed even before the currency's latest slide. He added that several options for dealing with the situation were under consideration.

One possibility is the arrangement of a standby facility either with the Bank for International Settlements or with an informal grouping of foreign central banks or private international banks. The objective would be to announce such a package over the weekend, ahead of the scheduled reopening of the markets.

Provide Bridge Financing

If such a standby proved possible to arrange, it would provide bridge financing either to tide South Africa over a liquidity shortage pending a change of market sentiment, or as a prelude to the arrangement of a standby with the International Monetary Fund.

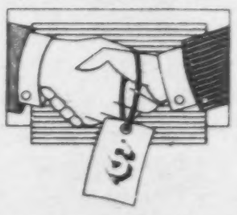
If it proves impossible to arrange a quick standby on acceptable terms

→ South Africa: Page 7

Hanover Rescinds Allnet's Credit Line

By LISABETH WEINER

CHICAGO — Allnet Communication Services Inc. said Manufacturers Hanover Trust Co. has decided not to renew its $10 million line of credit because of concern about the volatility of long-distance telephone companies.



Commercial Lending

But Allnet, based in Chicago, is reviewing propositions from three institutions to replace the Manufacturers' line, said Robert Hardy, Allnet's executive vice president of finance. A new agreement is expected to be in place by the end of September that could involve just one bank or more than one institution coming together, he said.

Mr. Hardy said he had been advised of Manufacturers' decision about four or five months ago.

It appears, he said, that "Manufacturers has decided to be a lender to the MCIs [MCI Communications Corp.] and Sprints and other large companies in the telephone industry" but not to the smaller companies, Mr. Hardy said. He added, however, that while Manufacturers' line of credit is being terminated on the Aug. 30 expiration date, the bank continues to be the debt source behind a number of leases, probably amounting to about $10 million.

Meanwhile, Mr. Hardy said, Allnet still has a $15 million line of credit with American National Bank and Trust Co., a subsidiary of First Chicago Corp., that is expected to be renewed by the end of September.

Mr. Hardy said borrowings against the Manufacturers Hanover line and the American National Bank line are both set at the prime lending rate plus one.

At Manufacturers, the company has been paying a commitment fee of

→ Allnet: Page 7

Fed Data Show Productivity Is Up at Banks

By DAVID O. TYSON

NEW YORK — It takes fewer people to run a bank these days.

A key statistic in the functional cost analysis of the Federal Reserve System shows that productivity continues to improve.

The indicator is the number of people employed for each $1 million of available funds. In 1984, it was down for the third straight year among participants in the annual survey, all of them community banks. And there was little difference between large, midsize, and small banks.

Most functional cost analysis ratios use available funds as a basis, since most bank functions are devoted either to providing funds or using funds. Available funds are defined as total liabilities and capital less bank premises, other real estate, and other assets. They equal cash and due from banks plus loans and portfolio investments.

The 12 Fed banks conduct the functional costs analysis each year, sending back individual reports to each participating bank and thrift so its management can determine how profitably — or unprofitably — each function of the institution is run. The Federal Reserve Bank of New York compiles the national figures for commercial banks, not thrifts, and makes a report available free to the public.

Participants numbered 509 in the functional cost analysis for 1984, down from 553 in 1983 and 608 in 1982. Mergers account for most of the decline.

The participants are grouped in three categories by deposit size: under $50 million, from $50 million to $200 million, and more than $200 million.

In the large-bank group in 1984, the ratio of personnel to each $1 million of available funds was 0.84, down from 0.91 in 1983 and 1.02 in 1982. For the midsize banks, it was 0.80, down from 0.83 in 1983, and 0.93 in 1982. And for the small banks, it was 0.82, down from 0.91 in 1983 and 1.01 in 1982.

As recently as 1979, the ratio was 1.15 for large banks, 1.14 for midsize banks, and 1.22 for small banks.

Such year-to-year comparisons can be misleading, because new participants enter the survey and old participants drop out, merge, or grow into a larger size category. But results do uncover trends.

The 1984 functional cost analysis shows service and handling charges

→ Costs: Page 8

Costs . . .

Continued from Page 3

were still below 5% of current income in all size groups and actually declined on average in the small and large banks. Such charges had been up in 1983 but had remained low, despite complaints about fees levied on consumers. (*American Banker,* Sept. 26, 1984, p.1).

Last year, charges averaged 4.26% of current income for the large banks, down from 4.44% in 1983; averaged 4.10% for midsize banks, up from 4.03%; and averaged 4.54% for small banks, down from 4.97%.

Also, the liability mix of survey participants continued to change, with banks attracting more funds through money market accounts, though not as much as they did in 1983 when those accounts were new.

As the accompanying table shows, regular savings deposits declined last year in all size categories. So did interest-bearing checking accounts. Customers obviously favored accounts paying higher interest, since there were increases in both certificates of deposit under $100,000 and in what the Fed labels "time open and other time deposits."

This last type comprises accounts that customers can add to or withdraw from whenever they wish. Originally, they were known as Golden Passbook accounts, but functional cost analysis banks now report their money market accounts in this category.

Retirement accounts continue to lose money in all size categories, though the loss ratio improved for midsize and large banks. And CDs under $100,000 produced a small profit in 1984 for banks with less than $200 million deposits but produced a small loss for the large banks. ■

The Shift of Funds in 1984

In the functional cost analysis, the Federal Reserve groups banks by deposit size: less than $50 million, from $50 million to $200 million, and more than $200 million. Two numbers are shown for each group. One is the average size of account totals in millions of dollars. The other number for the first three types of deposits is the percentage of time deposit dollar volume for regular savings accounts, certificates of deposit, and time open and other time deposits. In the bottom group, the other number is the percentage of demand deposit volume that interest-bearing checking accounts represent.

		Small Banks		Midsize Banks		Large Banks	
Regular savings deposits							
	1982	$5.6	27.4%	$17.5	26.8%	$ 95.5	33.0%
	1983	$4.5	22.3%	$14.5	21.0%	$ 70.3	25.1%
	1984	$3.6	16.8%	$11.9	12.2%	$ 59.7	20.9%
Certificates of deposit under $100,000	1982	$13.8	67.8%	$43.2	66.0%	$164.3	56.9%
	1983	$12.0	59.9%	$37.1	54.0%	$118.4	42.4%
	1984	$12.9	60.2%	$37.5	54.5%	$127.1	44.5%
Time open, other time deposits	1982	$0.6	2.9%	$ 3.2	4.8%	$ 22.5	7.8%
	1983	$2.9	14.6%	$14.6	21.3%	$ 81.3	29.1%
	1984	$4.0	18.9%	$16.0	23.3%	$ 83.7	29.8%
Interest-bearing checking	1982	$2.7	26.1%	$ 8.0	24.3%	$ 34.6	19.1%
	1983	$4.2	39.8%	$12.6	36.3%	$ 41.2	27.3%
	1984	$4.1	41.3%	$11.6	36.8%	$ 37.9	28.0%

Answer . . .

Continued from Page 4

the sale of the equipment.

Thus, the court held that, as a matter of law, the lease was a security agreement covered by the U.C.C.

Therefore, the court ruled that the guarantors, who were considered as debtors under the U.C.C., should have been given notice of the sale of the equipment. Since the bank failed to give such notice to the guarantors, the court sent the case back for trial to determine whether the sale was reasonable. In order to recover a deficiency judgment, the bank must also show that the value of the collateral was less than the unpaid debt at the time of sale. ■

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August 29, 1985

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Edward F. Fazio, auctr. sells 8 AM on 9/5/85 at 279 10th Ave. 1974 Chev. C30BE4V022388 Re: I. Levin; 9 AM 539 W. 47th St. 1977 Chev. 1D37U7B482247 Re: E.G. Zibit &/or M. Coronel; 10 AM 1828 Webster Ave. 1982 Buick 1G4AX69Y1CH443528 Re: Ect Leasing Inc., 1974 Linc. 4Y89A873216 Re: S. Rodriguez; 11 AM 242 Dyckman St. 1977 Olds 3Q35R7X156445 Re: N. Aquino, 1984 Olds 1G3AR47A9EM311457 Re: Hartford Ins. &/or M. Smith; 12 PM 165 Saw Mill River Rd. 1979 Cady 6D69S99263505 Re; R.L. Bailey, 1981 Dodge 1B3BK26B8BF228689 Re: M. Farrell, 1981 Buick 1G4AJ47A2BG165710 Re: O. Jacobs; 1 PM 131 Lincoln Ave 1977 BMW NY25673 Re: M. Echavarria, 1969 BMW 1666906 Re: H. Perez; 2 PM 20-15 21st Ave. 1976 Chev. CGT366U219663 Re: G.S. Smith; 2:30 PM 59-78 54th Ave. 1981 Peugeot 3BA41F7BS308411 Re: M. Roman; 3 PM 57-11 79 Ave 1978 Pont. 2T87U8N105308 Re: J.A. McNell; 4 PM 145-29 119 Rd. 1978 Chev. 1R07V8U130705 Re: A.G. Evelyn; 5 PM 51-22 Roosevelt Ave 1977 Dodge B11AB7K211023 Re: J.E. Marchan. Published 8/29 & 9/5/85.

DEFAULT IN A Security Agreement Made By Stascott Foods, Inc. To Lisa Edibles Corp. Sale , Aug 29, 1985, 11 A.M. at 69th New St, N.Y.C. R/T/I In & To Chatt., Fixt. & Equip. Subject To Prior Liens & S/A. Secured Party Reserves The Right To Bid. LEO FRANK INC., Auctrs As Agent.

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Jack Ross auctr sells 9 AM 9/5/85 360 Magee St. Southampton 1975 Yamaha 397-206827 Re: A. Gessin. Secured Party has the right to bid. Published 8/29 & 9/5/85.

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